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TO: Supervisor Don Knabe, Chairman
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FROM: Wendy L. Watanabe *Wendy L. Watanabe*
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF MCKINLEY CHILDREN'S CENTER – A FOSTER FAMILY AGENCY AND GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of McKinley Children's Center (MCC or Agency) from July 1, 2006 through June 30, 2007. The Department of Children and Family Services (DCFS) and the Probation Department (Probation) contract with MCC to serve as a Foster Family Agency (FFA) to recruit, certify, train and support foster family homes. MCC is located in the Fifth Supervisorial District.

From July 1, 2006 through June 30, 2007, MCC had 466 children placed by Los Angeles County in 218 certified foster homes. DCFS paid MCC between $1,589 and $1,865 per child per month. The California Department of Social Services (CDSS) requires FFAs to pay their foster parents at least 40% of the funds they receive. MCC received $6,854,711 in FFA funds from DCFS, and paid $3,404,056 (49%) of the funds directly to foster parents.

MCC is also licensed to operate a group home (GH) with a licensed capacity of 66 children. DCFS paid MCC $5,613 per child per month, based on a rate set by CDSS, for a total of $4,695,660.

Scope

The purpose of our review was intended to determine whether MCC complied with its contract terms, and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated the adequacy of the

Agency's accounting records, internal controls and compliance with applicable federal, State, and County fiscal guidelines governing foster care funds.

Summary of Findings

We identified $10,483 in unallowable costs and $52,992 in unsupported/inadequately supported costs. In addition, MCC needs to strengthen its internal controls over accounting, disbursements, personnel/payroll records, bank reconciliations, bank deposits, and ensure compliance with children's allowance requirements. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the questioned costs and collect any disallowed amounts. In addition, DCFS needs to ensure that MCC's management takes action to address the recommendations in this report and monitor to ensure the actions result in permanent changes.

Review of Report

We discussed our report with MCC's management on November 18, 2008. The Agency will provide their response to the report directly to DCFS. DCFS will incorporate the Agency's response into a Fiscal Corrective Action Plan that will be submitted directly to the Board of Supervisors. We thank MCC's management and staff for their cooperation during our review.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

c: William T Fujioka, Chief Executive Officer
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Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept. of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

McKinley Children's Center
Fiscal Review

REVIEW OF EXPENDITURES

We identified $10,483 in unallowable costs and $52,992 in unsupported/inadequately supported costs. Details of these costs are discussed below.

Applicable Regulations and Guidelines

MCC is required to operate its FFA and GH programs in accordance with the following federal, State, and County regulations and guidelines:

- FFA and GH Contracts, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)

- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular)

- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)

- California Code of Regulations, Title 22 (Title 22)

Unallowable Expenditures

We identified $10,483 in unallowable expenditures:

- $5,465 for a retreat at a Lake Arrowhead Resort for MCC's Board of Directors and family members. The retreat was categorized as a Public Relations cost in the Agency's accounting records. Circular A-122, Section 1 states that this type of public relations cost is unallowable. In addition, Circular A-122, Section 14 states that the costs of entertainment, diversion, social activities and related costs (e.g., meals, lodging, rentals, transportation, and gratuities) are unallowable.

- $3,000 in fines and penalties charged by the California Department of Social Services Community Care Licensing Division for failure to comply with fingerprint, or other criminal background checks on employees. Circular A-122, Section 16 states that fines and penalties are unallowable.

- $1,654 in petty cash for gift baskets for the Board of Directors and family members at the Lake Arrowhead retreat and Christmas party gifts, such as CD players, a DVD player, perfume, a blender and other gift packs for MCC staff. Circular A-122, Section 14 states that the cost of amusement, diversion, social activities, ceremonials and costs relating thereto, such as meals, lodging, rentals, transportations, and gratuities are unallowable.

- $364 in late fees and finance charges on Agency credit cards and Verizon. Circular A-122, Sections 16 and 23 state that fines, penalties and interest payments are unallowable.

Unsupported/Inadequately Supported Expenditures

A-C Handbook Section A.3.2 states that all expenditures must be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed. We identified $52,992 in expenditures that were either not supported or were not adequately supported. Specifically:

- $42,547 in inadequately supported salary to the Agency's Director of FFA. For 2007, MCC paid the Director of FFA $126,730. We compared this salary to the 2005 Child Welfare League of America (CWLA) Salary Study which indicates the maximum compensation for a Director of Major Programs in the Western Region was $84,183. A-C Handbook Section B.3.2 indicates the County may refer to the CWLA Salary Study to establish reasonable compensation for agency personnel. We are questioning $42,547 of the Director's salary that exceeds the CWLA maximum level ($126,730 - $84,183).

- $7,421 in inadequately supported credit card expenses. The Agency provided credit card statements, but no receipts or the receipts were inadequate to substantiate that the expenses were program related.

- $3,024 in inadequately supported auto allowances paid to the Chief Executive Officer (CEO). MCC did not maintain documentation, such as vehicle mileage logs, showing the allowances were related to the County's Group Home and Foster Family Agency programs. As a result, we cannot determine whether the auto allowances were appropriately used for business activity.

Recommendations

1. **DCFS management resolve $63,475 ($10,483 + $52,992) in questioned costs and collect any disallowed amounts.**

MCC management:

2. **Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency's programs.**

3. **Maintain adequate supporting documentation for all expenditures, including vehicle logs, original itemized invoices and receipts.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several areas where MCC needs to improve its internal control and contract compliance. DCFS should ensure that MCC management takes action to address each of the internal control and contract compliance recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Accounting and Disbursement Procedures

We noted the following internal control weaknesses in MCC's accounting and disbursement procedures:

- The Agency wrote checks payable to "petty cash." A-C Handbook Section B.2.1 states that checks should not be made payable to cash. The Agency should make checks payable to the petty cash custodian.

- As previously noted, the Agency's petty cash purchases included expenditures for a retreat and Christmas gifts for employees. According to the Agency's management, they were not aware that these expenses were unallowable. Petty cash should be used for small incidental allowable expenditures.

- The Agency's fixed assets list does not include details on each asset, such as the description, serial number or location of each asset. In addition, the Agency did not conduct an annual inventory of fixed assets to ensure that all fixed assets are accounted for and maintained in proper working order as the A-C Handbook Section B.4.2 requires.

Recommendations

MCC management:

4. **Ensure that checks are not made payable to cash.**

5. **Ensure that petty cash purchases are only used for small incidental and allowable expenditures.**

6. **Maintain a fixed assets list that identifies details of each asset such as the description and serial number and conduct an annual inventory of fixed assets.**

Untimely Deposits

Twenty-one percent of the checks MCC received from the County during our review period, totaling $1,187,032, were deposited ten or more days after they were issued. The A-C Handbook Section B.1.2 states that cash receipts totaling $500 or more shall be deposited within one day of receipt. Collections of less than $500 may be held and secured and deposited weekly, or when the total reaches $500. MCC management should ensure that Los Angeles County checks are deposited timely into the Agency's bank account in accordance with the A-C Handbook. The Agency indicated that, in early 2008 they started having the County deposit their payments directly into their checking account. While this should eliminate most future delays in deposits, MCC still receives some manual checks from the County. MCC should ensure that future County checks are deposited into the Agency's bank timely.

Recommendation

7. **MCC management ensure that Los Angeles County checks are deposited into the Agency's bank account timely.**

Personnel/Payroll Controls

CDSS-MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including employee salary rates. In addition, A-C Handbook Section B.3.1 states that timecards or time reports must be prepared for each pay period, and the employee and the employee's supervisor certify the accuracy of the reported time and sign the timecard in ink.

We sampled the personnel files and payroll records of 15 employees and noted:

- Eight personnel files contained salary or pay rate forms that did not match the rates on the payroll register.
- One personnel file did not identify the employee's salary or pay rate.
- Four employee time sheets were not approved by a supervisor.
- The preparer did not sign and date two employee time sheets.
- The CEO approved his own time sheet. The time sheet should have been approved by someone else, such as an Agency Board Member.

Recommendations

MCC management:

8. **Ensure employee pay rates are consistently documented and updated in the employee's personnel file.**

9. **Ensure that all employee timecards, including the Executive Director, are signed by the employee and a supervisor to certify the accuracy of the reported time.**

Bank Reconciliations

A-C Handbook Section B.1.4 states that monthly bank reconciliations should be prepared within 30 days of the bank statement date. Both the preparer and the reviewer should sign and date the bank reconciliations.

We reviewed the bank reconciliations for the Agency's bank accounts and noted that the preparer and reviewer had not signed or dated the reconciliations.

Recommendation

10. MCC management ensure the preparer and reviewer sign and date the Agency's bank account reconciliations.